

**EXCERPT FROM AUDIT REPORT ON
2014 ANNUAL FINANCIAL STATEMENT OF THE
HEALTH INSURANCE FUND OF MONTENEGRO**

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| Type of audit: | Financial audit and regularity audit |
| Audited entity: | Health Insurance Fund of Montenegro |
| Subject-matter of the audit: | Annual Financial Statement for 2014 of the Health Insurance Fund of Montenegro |
| Audit duration: | 180 auditing days |
| Auditing Board Members: | Mr Milan Dabović, PhD, President of the Senate – Head of the Auditing Board Mr Nikola N. Kovačević, Member of Senate – Member of the Auditing Board |

I BASIC ELEMENTS

1. LEGAL BASIS FOR PERFORMING THE AUDIT

Legal basis for performing the audit of the Annual Financial Statement of the Health Insurance Fund of Montenegro for 2014 is contained in the following:

- Constitution of Montenegro, Article 144 (“Official Gazette of MNE”, No. 01/07);
- Law on State Audit Institution, Article 4 (“Official Gazette of the Republic of Montenegro”, No. 28/04, 27/06, 78/06 and “Official Gazette of MNE”, No. 17/07, 73/10, 40/11 and 31/14);
- The State Audit Institution Annual Audit Plan for 2015, dated 25 December 2014, No. 4011-06-1799;
- Decision on Conducting Audit passed by the Auditing Board composed of: Mr Milan Dabović, PhD President of the Senate and the Head of the Auditing Board, and Mr Nikola Kovačević, Member of Senate and the Member of the Auditing Board, Number 40113-032-243 dated 20 February 2015.

Audit has been conducted in line with the following:

- Rules of Procedure of the State Audit Institution (“Official Gazette of Montenegro”, No. 3/15);
- Instruction on Methodology for Conducting Financial and Regularity Audit (“Official Gazette of MNE”, No. 07/15);
- International Standards for Supreme Audit Institutions (ISSAI-level III).

2. TYPE, SUBJECT-MATTER AND OBJECTIVE OF THE AUDIT

The State Audit Institution (SAI) has performed a **financial audit and regularity audit**.

Subject-matter of the audit were the financial statements of the Health Insurance Fund of Montenegro for 2014 and compliance with legal regulations. Selected areas that were subject of the audit were determined based on **the economic classification of expenditures for programs planned by the Budget Law for 2014, namely:**

- **602012491 program: Health Insurance Fund**
- **602012492 program: Health care institutions**
- **602013561 program: Institute of Public Health**

The objective of the audit is to express an opinion on the truthfulness and credibility of the annual financial statement and regularity (legality) of business, that is:

The objective of the financial audit is expressing an opinion on whether the financial statements are, in all material respects, prepared in accordance with the applicable financial reporting framework and whether in all material respects, are presented in a fair and objective manner in accordance with the given framework.

The objective of the regularity audit is expressing an opinion on whether the financial and other operations of the audited entity, in all material respects, comply with the laws, regulations and acts that have been identified as criteria for a given audit, given authorizations for planned purposes.

3. METHODS OF THE AUDIT

The audit was planned and carried out in accordance with International Standards on Auditing ISSAI, in a way that allows it to obtain reasonable assurance whether the financial statements of the audited entity are free from material misstatement. An audit involves performing audit methods and techniques to obtain audit evidence about the amounts and disclosures in the financial statements. The audit was conducted on the basis of sample checks, using analytical procedures and interviews, which we checked the amounts and disclosures in the financial statements.

Determination of risk and materiality was carried out using the Methodological instruction of the State Audit Institution of Montenegro, and sampling was conducted using the audit program IDEA. Materiality, or assessment of the extent to which it can be tolerated a misstatement in the financial statements, and not significantly affecting its veracity and objectivity, was estimated at 1.83, Established sample of 81.90% covered the expenses and expenditures of the audited entity. We believe that the evidence obtained is sufficient, appropriate to provide a valid basis for our audit opinion.

II OPINION AND RECOMMENDATIONS

The State Audit Institution of Montenegro, pursuant to Article 9 of the Law on State Audit Institution and the Decision of the Auditing Board of the State Audit Institution, composed of President of the Senate, Milan Dabović, PhD, Head of the Auditing Board and Member of Senate, Nikola N. Kovačević, Member of the Auditing Board, carried out **the financial audit** of the Annual Financial Statement of Health Insurance Fund of Montenegro for 2014, which includes the Statement of cash flows, consolidated report of the spending unit consisted of institutions that generate their own income. Statement of outstanding liabilities as of 31 December 2014 and **the regularity audit** of the activities of financial transactions with laws and by-laws.

Management's Responsibility for Financial Statements

In accordance with Article 2, item 31 of the Law on Budget and Fiscal Responsibility, the budget executor is the entity responsible for the execution of the budget of the spending unit, i.e. an entity authorized by the budget executor for the management and disposition of state money, as well as for the preparation and presentation of financial statements in accordance with Rules on the method of preparation and presentation of financial statements of the budget, state funds and local governments. According to Article 40, paragraph 4 of the Law on Budget and Fiscal Responsibility, the legal use of funds approved to a spending unit shall be the responsibility of the budget executors. Pursuant to Article 22 of the Statute of the Fund, the Head is responsible for the legality of the Fund. The responsibility includes correct and accurate accounting, design, and implementation, ensuring internal control relevant to contractual obligations, costs, preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error.

The responsibility of the State Audit Institution

The responsibility of the State Audit Institution is, based on the performed audit, to express an opinion on the annual financial report of the Fund for 2014, and to express an opinion on whether the activities, financial transactions and information provided in the financial statements, in all material respects, are in accordance with applicable regulations that regulate those. The audit was conducted in accordance with Article 4 and 9 of the Law on State Audit Institution, the relevant International Standards for Supreme Audit Institutions (ISSAI-level III), which require compliance with the ethical requirements, and plan and perform the audit in a way that enables reasonable assurance that reports comprise no material misstatement on the basis of the annual audit plan of the State Audit Institution for 2015, No. 4011-06- 1799 dated 25 December 2014.

The given audit also included performing of procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

During the risk assessment, there are considered the internal control relevant to the preparation and presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal controls.

The given audit also includes evaluating the overall presentation of the financial statements,

We believe that, the audit evidence obtained during the audit are sufficient and appropriate to provide a basis for an audit opinion.

OPINION

Financial audit of the Annual Financial Statement of the Health Insurance Fund of Montenegro for 2014, was found that the statements of the Fund for 2014, in all material respects, are prepared in accordance with prescribed financial reporting framework and do not contain the essential material errors and, accordingly, the competent Auditing Board expressed **an unqualified opinion with the emphasis of matter**.

The regularity audit of the Annual Financial Statement of the Health Insurance Fund of Montenegro for 2014 found that in some material respects, the business activities are not aligned with legal regulations that govern the budget business in Montenegro, and accordingly the competent Auditing Board expresses a **qualified opinion**. The basis for expressing the qualified opinion:

RECOMMENDATIONS

1. The Management Board of the Fund has, at its meeting held on 29 December 2015, pursuant to Article 91 of the Health Insurance Law and Article 12 of the Statute of the Fund, adopted a report on the activities of the Health Insurance Fund of Montenegro for 2014. The Government of Montenegro, pursuant to the Conclusion No: 08-763 dated 16 April 2015, adopted a report on the work of the Ministry of Health and the state of the administrative areas in 2014 with the Report of the Health Insurance Fund of Montenegro in 2014. In Form 3 - Cash Flow Statement III, the Fund has not stated the expenditures by the structure in all programs, as required by the model. Specifically, the Fund, in the statement of cash flows III, presented the structure of expenditures by the required form only for the program 602012491 Health Insurance Fund, while expenditures for programs 602012492 Health Institutions and the program 602013561 Institute of Public Health, reported on a consolidated position 2.3 - Transfers institutions, individuals, NGO and public sector in the amount of €143,207,720, and were executed in the amount of €143,135,707, although the Law on budget for 2014, funds allocated to position 431 Transfers to institutions, individuals, NGO and public sector planned for the program 602012492 for healthcare institutions and only in the amount of €61,980,000, i.e. after allocation, in the amount of €59,945,581.
 - **It is necessary to, in the Form 3 - Cash Flow Statement III, in an unified manner present the expenditures by the structure of all three programs, as outlined in the proposal of the Law on Budget of the Final Statement of Accounts for 2014 (Explanation). In fact, all three programs were, by the Budget Law within the 60201 Health Insurance Fund, planned by economic and functional classification. Cash payments during the year must be recorded on the relevant classes of expenditure by purpose as consumed from budgetary positions. After the final calculation, there shall be determined the deviations as a basis for more realistic plans preparation.**
2. In the Form 6 - Consolidated report of the spending unit, which is composed of public institutions at a position 2.3 Transfers to institutions, individuals, NGO and public sector, for the execution of the budget, presented the amount of €3,530,296, which relates to transfers of the Fund to dental clinics, as stated in the notes to the financial statements of the Fund. Rules on unified Classification for the State Budget, Extra-Budgetary Funds and Municipal Budgets, do not foresee a position of planning and records of health care in private dental offices.
 - **The State Audit Institution recommends that the Fund shall initiate with the Ministry of Finance an amendment of the Regulations on the Classification for the State Budget, Extra-Budgetary Funds and Municipal Budgets in the records of the contracted services at health**

care in private dental offices, to ensure that resources are planned, implemented and reported in according to the actual purposes.

3. Outstanding liabilities of the Fund and public health institutions (31 PHI excluding Montefarm) as of 31 December 2014 amounted to €52,081,276, out of which the liabilities of the Fund amounted to €33,152,653, while total liabilities of PHI €18,928,623. Arrears of public health institutions are not specifically included in the process of auditing and analysing of documents and materials submitted by the audited entity. The Fund has prepared the Information on arrears for 2014 and information on the status of outstanding liabilities of the Health Insurance Fund in the period 2009 - 2014, however, the Decision on the inventory list, and the Committee for counting of assets and liabilities of the Fund, has not appointed a special commission to inventory of the liabilities.
 - **Due to the significant amount of outstanding liabilities of the Fund as of 31 December 2014 and a large number of suppliers according to which the Fund has outstanding obligations, and whose status is displayed and unquestionably confirmed through the minutes on the harmonization of liabilities and receivables, it was necessary also to, by a Decision on inventory and formation of the Commission of preparation of inventory list of assets and liabilities of the Health Insurance Fund of Montenegro, appoint a commission to prepare a list of liabilities as well.**
4. The Government of Montenegro, pursuant to the appropriate conclusions in the period 2010 - 2015, paid the outstanding liabilities of the Fund, **in the amount of €61.5 million**, as follows: in 2010 in the amount of €14.8 million, in 2011 in the amount of about €10.7 million, and in 2015 in the amount of €36 million. Outstanding liabilities of the Fund as of 31 December 2014 mainly referred to outstanding liabilities to Montefarm for the procurement of drugs and medical devices, in the amount of €18,486,223, to health institutions in Serbia in accordance with the concluded agreements, in the amount of €2,749,483, to medical institutions outside the system of public health, the amount of €2,604,858, for orthopaedic and other devices and supplies in the amount of €696,647 and for compensation for sick leave over 60 days in the amount of €8,210,694.
 - **Due to a long-term stating of the high level of arrears, it is required to prepare a more realistic plan and approve the Fund the funds allocated in the budget on an annual basis, particularly in terms of funds for the purchase of medicines and medical assets and liabilities arising from sick leave over 60 days.**
 - **It is necessary to carry out the analysis and control of the acquisition and consumption of drugs by health care institutions and prescription of medicines, financed from the budget of the Health Insurance Fund on that basis, with the obligation of Montefarm and PHI to quarterly submit the data on inventories of medicines and medical devices with PHI and Montefarm and data on executed write-off of drugs within the fiscal year.**
5. Comparing data on the status of cash at the beginning and end of the period reported in the statement of cash flows IV - Forms 4 in 33 public health institutions, the data in the ledgers of PHI, certificates of funds with commercial banks, there were established certain discrepancies. In some PHI there were identified deviations due to non-inclusion of the cash balance in INT form, which are shown in the business books, i.e. not including the balance of the funds of the Treasury, the amount of the balance of funds in the interim accounts, failure to show part of the cash deposit in the initial balance and balance of the funds at the end of the year, and not including short-term securities that are stated in the initial balance or not included in INT form. According to available data, the effect of discrepancies identified in the audit, as the difference of funds in the business records of PHI and receipts from commercial banks, in relation to the information presented in the INT - Forms 4, at the beginning of the year amounted to €339,298, less stated balance at the end of the year in the amount of €450,421.

An additional difference in the Consolidated Statement of spending unit that consists of public institutions - Form 6, compared 4 INT-form exists for an amount of €3,871, due to lower balances with the present state of Health Facility the Pharmacies of Montenegro "Montefarm".

Materially significant deviations of the cash funds shown in the business books of the Public health institutions compared to data reported in the INT - Forms 4, were established with the Health Facility the Pharmacy of Montenegro "Montefarm" due to non-inclusion of part of the cash deposits in cash balance at the beginning and end of the period in the amount of €350,000 and with PHI Special Hospital Brezovik due to non-inclusion of short-term securities in the cash balance at the end of period, in the amount of €104,612, which were included at the beginning of the period. The cash flow statement of "Montefarm" at the end of 2013 and 2014 included a deposit in the amount of €200,000, while deposits in the amount of €350,000 were not included, a Special hospital Brezovik at the end of 2013 shown in short-term securities the amount of €96,102, and the same in the amount of €104,612 as of 31 December 2014 were not included in the cash balance.

- **In the future it is necessary that the health institutes in the Statements of cash flows IV - Forms 4, stated cash balance aligned with the business records and confirmed balances so that the cash in the consolidated statement of spending unit, which is composed of public institutions - Form 6 is accurately stated.**
6. In the process of audit it was found that the Public Health Institutions performed their operations through several commercial banks, in which they have several opened accounts. According to the proposal of the Fund, PHI have opened a special account just for funds from the budget, through which the flows are monitored by the Fund and the realization of the planned expenditures for purposes planned by the Budget.
- **It is necessary that the public health institutions conduct their business through a maximum of two commercial banks, including special accounts for budget funds (earmarked revenues, income and expenses).**
7. The Law on Budget of Montenegro for 2014, Budget of the Health Insurance Fund was planned in the amount of €168,434,988. During the year, there were made the reallocation of funding in the amount of €4,348,113, out of which within the Fund the amount of €2,651,113, and a transfer of funds from other spending units in the amount of €1,697,000 by which there were increased the total assets of the Fund. After reallocation, the current budget of the Fund amounted to €170,131,988, and realized funds €170,035,869, or 99.94% of the planned funds. The budget of the Health Insurance Fund of Montenegro includes: The Health Insurance Fund for the current budget in the amount of €26,924,268, execution in the amount of €26,900,163, Program Medical Institutions for the current budget in the amount of €140,700,523, execution in the amount of €140,628,523 and Program Institute of public health for the current budget in the amount of €2,507,197 the execution in the amount of €2,507,184. By reallocating, there were ensured the missing funds in the framework of the Program 602012491 Health Insurance Fund for the following purposes: treatment outside of Montenegro in the amount of €715,169, orthopaedic devices and supplies in the amount of €130,000 and Reimbursement of travel costs of the insured in the amount of €965,000. Within the program 602012492 Health institutions, the missing funds were provided in positions of gross salaries, contributions paid by employers and municipal surtax in the amount of €1,850,495, while at the same positions reduction was made in the amount of €398,379 with a reduction of positions Transfers for health protection made in the amount of €2,034,419, in accordance with the law.
- The Law on Budget limited the resources for health care, and the rights of beneficiaries under the Health Insurance Law, the Health Protection Law and other laws in the field of health. Also, the Law on Budget and Fiscal Responsibility, article 40 provides that contractual obligations must be in line with planned and approved funds of the annual Law on State Budget, and that the new

commitments, which will be implemented in the next fiscal year, can be taken on the condition that such expenditure in the current budget is defined as a multi-year expenditure, with previous consent of the Ministry of Finance. For this reason, it is necessary to comprehensively plan the necessary resources for the health care of insured in all respects, with the aim of achieving the guaranteed rights completely, without limitation, within the planned funds by the Budget Law annually.

- **In the process of budget planning, taking into account the significant amount of cumulated arrears to the Fund for the period 2010 - 2015, which were, pursuant to the Conclusions of the Government of Montenegro, assumed and paid in the amount of €61.5 million, it is necessary that the Fund, in cooperation with Ministry of health and Ministry of Finance make plans more realistically for funding for health care in the Budget Law for the current year, on the basis of realized expenses in the previous period and estimates the necessary budget funds for the next period.**
- **Ministry of Finance at the end shall close the budget execution in favour and at the expense of the fiscal year in order to show the real contributions that belong to the Fund.**

Due to the significant amount of arrears over a longer period, which at 31 December 2014 for the Fund amounted to €33,152,653, and (health care institutions - 31) without Montefarm €18,928,623, it is necessary to consider the possibility of providing additional sources of funding for health care.

8. Pursuant to the Law on Health Insurance, the Rulebook on criteria for concluding contracts for the provision of health services, the Decision on the network of health care institutions and the Statute of the Health Insurance Fund of Montenegro, Health Insurance Fund of Montenegro concluded agreements on the provision of health services with health care providers. Pursuant to the provisions of the contract, there shall be harmonized the obligations between the Fund and health institutions quarterly and annually. Pursuant to the provisions of the contract, the amount of invoices issued to the Fund for the provided health care that is exceeding the amount of proceeds received, the Fund will recognize the invoices to the amount of transferred funds. Exceptionally, due to the provision of affordable, accessible health care, the Fund may recognize to the health care provider an additional billing invoice provided that the provider of health care services provided the agreed scope of services, up to the amount of allocated funds. If the amount of invoices issued to the Fund for health care provided is less than the amount of funds transferred, the provider of health services shall transfer the increased amount of resources to an advance to reimburse the invoices in the coming year.

Records on the harmonization of liabilities and receivables, between the Fund and the Health Centre of Podgorica and the Fund and the Clinical Centre of Montenegro, signed in November 2015 Minutes with the Institute for Blood Transfusion was signed in October, and other Minutes were signed in September 2015.

For 2014, the Fund has not signed the Contract Annex for the provision of health care services with the Clinical Centre of Montenegro.

Between the Health Insurance Fund of Montenegro and the Health Centre Podgorica, the Minutes were made on 18 November 2015 on the harmonization of mutual liabilities and receivables as of 31 December 2014 after the final calculation for 2014 and the final accounts of the previous period. The Minutes established that the opening balance on 1 January 2014 amounted to €1,906,778 and includes the balance as of 31 December 2012 and 31 December 2013 as a result of a conflicting balance of the final calculation for 2012 and 2013. In 2014, Health Centre Podgorica invoiced more services in relation to the amounts paid to the Fund amounting to €1,208,710. For services billed of the PHI Health Centre Podgorica in relation to the amounts paid to the Fund for 2012, 2013 and 2014, totalling €3,115,488, will be settled through arbitration, which will be requested by the Fund pursuant to Article 33 of the

Underlying Contract No: 01-2981 dated 23 July 2012, as stated in the Minutes No: 03-6865/2 dated 26 November 2015.

According to the existing method of calculation and alignment of mutual rights and obligations between the Fund and the health institutions on the basis of invoices issued and paid funds, there was not reached a satisfactory level of harmonization between the Fund and health institutions, in order to minimize the difference between the amount of invoiced services and paid amounts.

- **Due to significant differences in the amounts of invoiced services by public health institutions and funds paid to the Fund, it is necessary to determine the manner and procedure of calculation, in order to ensure a greater degree of harmonization between the Fund and health institutions and decrease in a difference in the amounts of invoiced services and funds paid to public health institutions.**
9. For some medicines and medical supplies to be provided by Montefarm to public health institutions, there shall not be concluded the agreements between Montefarm and public health institutions, and mutual receivables and liabilities between the Fund, Montefarm and Public health institutions were closed by the cession agreement, pursuant to Article 7 of the Contract, which refers to the supply of the insured drugs and medical devices that are prescribed and dispensed by prescription, signed by the "Montefarm" and the Fund, and the provisions of the Contract on the provision of health care at the primary, secondary and tertiary levels concluded between the Health Insurance Fund and public health institutions. At the end of the year between the Montefarm and public health institutions shall be signed the Minutes on the harmonization of balance of mutual receivables and liabilities.
- **Montefarm performs activities of public interest in supplying of public health institutions by drugs and medical devices. Due to the absence of contractual relations between public health institutions and "Montefarm", it is necessary to provide for enhanced control over the Fund's consumption of drugs in public health institutions.**
 - **It is necessary to harmonize with the minutes the balance of mutual receivables and liabilities between Montefarm and public health institutions, in addition to the amount of the balance on accounts of receivables and payables, and show the total amount invoiced for medicines and medical supplies, and funds paid on that basis in the current year.**
10. The payment of funds to the supplier of services of imports, forwarding and transport of medical devices was conducted in accordance with the Contract from the previous period for the provision of services of imports, freight forwarding, warehousing and transport of medical supplies to be provided at the expense of the Republican Health Insurance Fund and the agreements concluded in the current year between the Fund, health institutions, suppliers selected in accordance with the conducted public procurement procedures and the said supplier as importers and freight forwarders.
- **The Fund should in the future engage suppliers for services imports, freight forwarding, storage and transportation of drugs and medical devices in accordance with the provisions of the Law on Public Procurement and Newly concluded contracts, but not as far in accordance with the contract from the previous period.**
11. The Department for control of the Health Insurance Fund performs the controls of the payroll system by a particular methodology of sample while the control of monthly accrued wages is conducted by the Ministry of Finance.
- The audit has found that all officers and employees of the Health Insurance Fund in 2014 were paid a variable part of the salary, which is contrary to Article 2 of the Decision on criteria for determining the variable portion of salaries of civil servants and state employees. The said decision to pay a variable part of the salary was signed by a director of the Fund for health insurance. On the basis of that decision, Ministry of Finance performed the payment of the

variable part of the salary without having adopted the decision of the Minister of Finance on the payment of the variable part of the salary.

- **The Fund should, in accordance with Article 2 of the Decision on criteria for determining the variable portion of salaries of civil servants and state employees, establish variable part of the salary. In accordance with Article 15, paragraph 3 of the Law on salaries of civil servants and state employees, it is required that a decision on the variable part of the salary for civil servants, or state employees is issued by the Minister of Finance, based on the decision of the head of the body of fulfilment of conditions for the variable part of the salary.**
12. Report on calculated and paid taxes and contributions - Form IOPPD, PHI individually deliver to the Tax Administration by e-mail. The audit has found that up to 21 April 2015, the Clinical Centre of Montenegro, submitted the last report on calculated and paid taxes and contributions for June 2013, while all other public health institutions submitted IOPPD forms for December 2014.
- **It is necessary for public health institutions to submit IOPPD Form in accordance with the provisions of the Law on Unified Registration and Reporting System on Calculation and payment of taxes and contributions. Failure to submit the IOPPD Form shall affect the unrealistic balance of final tax return, as it records the payment of taxes and contributions, and not submitting the forms causes not charging the payables, which leads to the balance of prepayment of taxes and contributions.**
13. The audit performance identified engagement of individuals pursuant to the service contracts for activities and tasks required by the Regulations on internal organization and systematization, which is not in accordance with the provisions of the Labour Law and the Law on Civil Servants and State Employees.
- **The person's engagement for jobs of ordinary jurisdiction of the Fund need to be carried out in accordance with the Labour Law.**
14. From the position of 4199, there were realized the expenditure on compensation for work in the medical commissions, compensation to members of the commission for opening and evaluation of bids, fees to Board of Directors, fees based on the execution of court decisions and others. Audit of the fees paid to the members of the Commission for opening and evaluation of bids found that there is a different number of members in the decisions on the appointment of the Commission and the solutions that are used for payment of funds to the committee members.
- **For the payment of compensation for members of the committee, agreed solutions are needed on the appointment and payment of funds to the members of the Commission, in terms of the number of members of the committee.**
 - **Fees for work in the working groups and committees of the Fund employees and compensation to members of the Board of Directors, should be planned and implemented from a position 412 - Other personal income.**
 - **Fees for enforcement of court decisions shall be executed from the respective positions depending on the basis of execution, or by redirecting resources to position 463 Repayment of liabilities from the previous period.**
15. In 2014, within account 424 Other rights in the field of health care, the budget position 424-1 treatment outside of Montenegro realized the funds in the amount of €15,215,135, for treatment abroad, medical treatment in medical institutions in Serbia, as well as in health

institutions in Montenegro that are not in the public health system, with which the Fund concluded contracts.

- **Rules on Classification for the State Budget, Extra-Budgetary Funds and Municipal Budgets, Account 424 Other rights in the field of health care refers to regular and one-off compensation received by individuals on the basis of law, which shall be borne by the Fund, and in the context of this account there is determined only position 424 - and treatment outside of Montenegro, which relates to the provision of health care to resident persons outside of Montenegro inpatient, outpatient or otherwise. Accordingly, the expenses for treatment in medical institutions in Montenegro that are not in the public health system, with which the Fund has concluded contracts, it is necessary, in cooperation with the Ministry of Finance to look at the possibility of amendments to the Rules on Classification for the State Budget, Extra-Budgetary Funds and municipal budgets, so as to plan the financial funds and implement in accordance with the accounts established by the amended Regulations.**

16. The audit has found that the Department for control of the Health Insurance Fund, carried out checks in accordance with the Regulations on the method, procedure, content and control of measures for health care providers and the fact that, Clinical Centre of Montenegro and special hospitals are not fully integrated into the Integral Health information system makes it difficult for a system of effective planning, management and control. For 2014, the Supervision Department has prepared the act - Correspondence relating to the check the public health institutions for 2014, while the annual performance report has not been prepared.

- **To achieve more efficient planning, management and control, it is needed to fully integrate in an integrated health information system the Clinical Centre of Montenegro and special hospitals. Pursuant to Section 5 of the Rules on internal organization and systematization, it is necessary that the Control Department prepare an annual report on the work.**

17. In the current method of financing the consumption through the Health Insurance Fund (PHI and other users), the Fund has no direct insight into the actual state of expenditures incurred, except when the control is performed by officers of the Fund, In existing decisions, the Fund officials that examine the spending of budget funds do not have the authority to prosecute any irregularities in spending units financed through the Fund. Due to the significant amount of funds to be implemented on the basis of law in the field of health care and health insurance, of which in 2014, other rights in the field of health care were realized in the amount of €15,215,135. Other health insurance rights were realized in the amount of €8,089,340, while transfers to institutions, individuals, NGO and public sector realized in the amount of €59,945,581.

- **It is necessary that the Control Department fill the vacant positions, particularly bearing in mind that the Department for control of contract implementation and the realization of the rights of health care insurance for the systematized positions planned 14 employees, who examine the implementation of the contract in 33 health institutions and contracts and accounts for the realization of other rights in the field of health care, remaining rights to health insurance, as well as contracts with private dental practices.**
- **It is necessary to bring the Fund's internal procedures on how to execute the budget funds to public health institutions. According to the existing decisions in PHI, the budgetary spending is controlled by the Steering Committees.**

18. In 2015, the Plan to establish financial management and control for 2015, No. 01-1891 dated 7 April 2015, the activities were planned for the organizational arrangements and the

establishment of financial management and control, while for 2013 and 2014, there was not adopted the Plan on establishing financial management and control.

- **It is necessary to plan the implementation of activities provided for the establishment of financial management and control for 2015 and ensure monitoring, evaluation and updating of financial management and control pursuant to Article 11 and 13 of the Law on internal financial controls in the public sector.**

19. The Department for Internal Audit systematized 3 jobs, out of which 2 are occupied. In 2014, it was not carried out evaluation of the adequacy of the financial management and control.

- **It is necessary in the Department of Internal Audit to fill the vacancies, as provided by the act on systematization of jobs and the Law on internal financial controls. It is necessary to carry out the assessment of the adequacy of the financial management and control and report thereof.**

The Auditing Board responsible for the relevant audit indicates that the subject of the audit shall **within six months notify the State Audit Institution on actions in relation to the given to the recommendations.**